

Issue # 6

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# The Monthly Minute

## With State Senator John Pappageorge

P.O. Box 30036 Lansing, MI 48909 Toll Free 1-877-SEN13th (736-1384)  
Www.SenatorJohnPappageorge.com

Dear Friend:

Last month the legislature passed a replacement for the Single Business Tax (SBT). The new plan is known as the Michigan Business Tax (MBT) and will go into effect January 1, 2008. It represents a compromise between the Senate, House and Governor and creates a fair, equitable tax structure that encourages new economic development across the state. Here are a few of the highlights:

- Protects taxpayers by creating a reimbursement mechanism to taxpayers for 50% of revenues that come in over 5% of what was estimated
- Small businesses with gross receipts under \$20 million will see a substantial tax reduction
- Reimburses the K-12 system for the loss of revenue caused by the personal property tax exemption for industrial personal property. All local units of government and schools are held harmless
- Includes a combination of a modified gross receipts tax (rate of .8%) and a business income tax (rate of 4.95%)
- Offers the Michigan Entrepreneurial Exemption (ME-2)-a 100% credit for firms with under \$25 million in gross receipts that add jobs/invest in Michigan

The importance of the MBT is undeniable. While the SBT discouraged investment by taxing growth and expansion, the MBT offers credits to those willing to invest in this state. This change was necessary to turn around Michigan's failing economy. I am pleased that we were able to come to an agreement on this proposal and can now move forward.

Our next pressing issue is the Fiscal Year 2008 budget, which begins on October 1<sup>st</sup> of this year. We are facing over a \$1 billion deficit that must be balanced. My Republican colleagues and I in the Senate worked diligently to balance the current fiscal year budget without raising your taxes. I will continue to advocate smaller government and increased efficiencies before placing further tax burdens on Michigan families and businesses.

I will continue to keep you updated on the workings of your state government. Please feel free to contact my office on any legislative matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "John Pappageorge". The signature is fluid and cursive, with a stylized "P" and "G".

John Pappageorge



## Spotlight on Pappageorge's Budget Reform Plan

If someone from another planet were to visit Lansing and critically examine our budgeting process, he would no doubt ask, "How did so many highly intelligent people come up with such a dumb system?"

Believe it or not, here's what we do. Every January the state treasurer, the Senate Fiscal Agency and the House Fiscal Agency—supported by the econometrics modelers from the University of Michigan—present their estimate of how much revenue might be available for the next budget cycle that will begin in October and end in September the following year.

In short, the estimators say that if we budget according to their estimate, 22 months later everything will come out perfectly. Actually, the chances of that happening are almost zero. Why? Because what's going on is highly sophisticated manipulation of inadequate data. And the data will never become any more adequate. Nonetheless, the instant the estimate is announced and approved—at a joint session of the Senate and House Appropriations committees—it is no longer considered an estimate. It becomes a promise to everyone in the standing-room-only audience of how much money they

can figure on getting.

The Senate and House Appropriations committees begin putting together budgets on the assumption that the estimate is now real money sitting in a drawer ready to be spent. That's crazy. But that's what we do. I looked at a 10-year moving average and found that the estimate has been too high by 4 percent.

It doesn't take a genius to figure out that the safest way to proceed is to budget at 96 percent of the estimate, that would prevent what happens in May of the following year when—halfway through the budget year that was signed into law the previous October—we're short of money because spending is continuing at a 100 percent rate when we only have 96 percent of the money.

Then all hell breaks loose. The conservatives say we'll have to cut 4 percent to live within our means and the liberals say we need more revenue but we don't want to vote for a tax increase.

So the liberals try to get the conservatives to go along with a tax increase, and the conservatives try to get the liberals to go along with spending cuts. How does it end up? We mortgage our future and borrow the money. It's called securitization.

If conservatives really wanted us to live within our means, they never should have accepted the January estimate as being real money. Likewise, the liberals, fearing a vote for a tax increase, should not have accepted the estimate as real money either.

The remedy is easy enough. I propose we change the constitution to not allow the governor to propose, or the Legislature to send to the governor, a budget that is higher than 96 percent of the revenue estimate. If it turns out that there is some money left over at the end of the year, it goes into the rainy day fund. The following year we would be allowed to budget at 96 percent plus however much money we withdraw from the rainy day fund.

My resolution—which needs a two-thirds vote to be placed on the ballot—has provisions covering the need to overspend in the event of a terrorist attack or a natural disaster, and limits to what can be moved out of the rainy day fund.

The day we vote to approve this, our bond rating will go up, and shortly thereafter our cash flow will go from negative to positive. We'll be able to see a better future for those who follow us.

## Senate Strengthens Laws for Livestock Producers

The Senate recently approved bipartisan legislation to strengthen laws governing large livestock producers in Michigan, while helping them protect the environment and remain economically competitive.

The measures will put existing requirements into law for the Michigan Agriculture Environmental Assurance Program (MAEAP), which is an innovative, proactive, performance-based strategy that helps farms of all sizes and types prevent or minimize agricultural pollution risks. The bills will also increase enforcement actions for violators.

Under the legislation, some large animal farms will still be required to obtain a National



Pollution Discharge Elimination System permit, including all operations with more than 5,000 animal units and all operations that have had a discharge.

All livestock facilities between 1,000 to 5,000 animal units, however, can either be compliant with MAEAP or attain a permit from the Department of Environmental Quality.

Agriculture is Michigan's second largest industry valued at more than \$60.1 billion. Michigan is second in the nation for agricultural diversity and exports one-third of its 200 agricultural commodities every year.

The legislation has received support from many organizations, including the Michigan Farm Bureau, Greenstone Farm Credit Services, Michigan Milk Producers Association and Michigan Corn Growers Association, just to name a few.

The bills now head to the House for consideration.

## Car Insurance Protection for Military Service Members Passed Into Law

Recently, legislation to protect military service members by not penalizing them for a lapse in auto insurance coverage while serving on active duty passed into law.

The law prohibits automobile insurers from refusing to insure or continue insuring, limiting coverage, charging a reinstatement fee, or increasing premiums for a person whose insurance lapsed while on active duty in the Armed Forces.

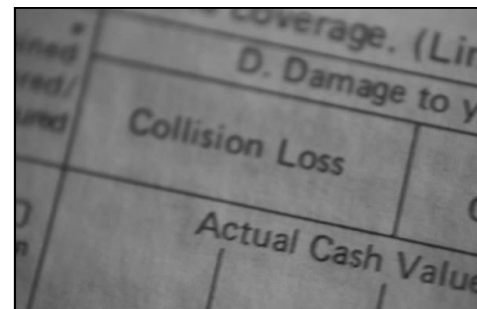
Before this law was passed, insurance companies

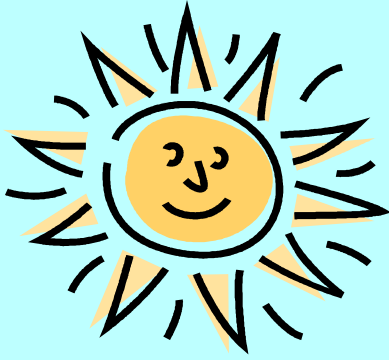
could refuse to insure or limit coverage available to a driver who has not maintained "mandatory insurance coverage in force" during the six months immediately preceding the application for insurance. This can be problematic for service members in the military if their automobile insurance expires while they are on active duty.

Individuals must certify they were on active military duty for at least 30 consecutive days and certify that the vehicle was not driven or moved during the lapse in coverage.

The exemption does not apply to cases where family members of an active duty service member drive an uninsured vehicle.

The legislation passed the Senate on a 38-0 vote.





# Summer Fun

If you are looking to spend an enjoyable evening with the family this summer, why not attend one of the many fairs or festivals around the state? The dates and times of events can be found on the internet at [www.michigan.gov/mda](http://www.michigan.gov/mda). Simply click on the "Fairs, Racing and Recreation" link on the left of the page to get the most up-to-date information.



## Tips to Save on Utility Costs this Summer

These tips were put forth by the Michigan Public Service Commission to help you save on utility bills as the summer heats up.

- Seal air leaks around doors and windows
- Clean air conditioner coils and filters every month to make them more energy efficient
- Use a programmable thermostat. Setting it 10 degrees warmer when not at home can save 3 to 5 percent on electric bills
- Use fans. They can make the use of an air conditioner unnecessary
- Lower the temperature on the hot water heater to 120 degrees, which is comfortable for most uses
- Plant leafy trees that shield the house from direct sunlight, keeping temperatures down. In addition, planting draught-resistant perennials and shrubs can save on water bills
- Purchase energy efficient appliances whenever possible

## Questions or Comments?

If you have any questions or comments regarding information in this newsletter, or wish to be removed from or added to the mailing list, please contact my office at the following information:



State Senator John Pappageorge

P.O. Box 30036

Lansing, MI 48909

517-373-2523 517-373-5669 (fax)

[Www.SenatorJohnPappageorge.com](http://Www.SenatorJohnPappageorge.com)